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ECONOMIC COMPETITIVENESS IN THE LIGHT OF INVESTMENTS IN RESEARCH AND DEVELOPMENT - EUROPEAN EXPERIENCE AND CHALLENGES FOR DEVELOPING COUNTRIES

Summary: *Financing of research and development by the state and the economy in developed and transition countries is a key factor in the structural change policy and a matter of prestige in international competition. Thus the role of the state and its entities in creation of an industrial policy in cooperation with private capital is growing, since the shortening of the century of monopolistic technological rentals accelerates investment in research. Therefore, on the horizon we can see a radical change in the structure of workforce, as well as the education system and its financing on the principle of entrepreneurial incubators. In the nineties of the last century, science and technology gained significance from the point of view of financial investments. The era of diversification of incentives for scientific research and technological development began. In OECD countries, research and development has become an almost dominant field of financial investment of the state and enterprises, as well as entrepreneurs. In this paper we explore European experiences in the form of best practices for developing countries, more precisely Serbia in its Euro-integration processes.*

Key words: *research, development, regionalism, incentives, benefits, Euro-integration*

JEL classification: *O31, O32, O4*

INTRODUCTION

In today's world, the competitive ability of the economy is the result of systemic measures and mechanisms, as well as macroeconomic policy instruments, environments, as well as managerial and commercial skills, geographical, organizational, and demographic and resource indicators. In order to maintain stable and sustainable economic growth, it is unimaginable without competitiveness and modernization of the economy in terms of innovative activities and the economy of knowledge (Nestorović and Stankovic 2014, 148). Today, knowledge is recognized as the carrier of productivity growth and an important factor of economic growth, emphasizing technology, information and learning processes in strengthening economic potentials. By investing in knowledge, the production capacity of production factors increases, but it also enables their transformation into new products and processes (Jovičić and Petković 2016, 100).
Science and innovation are key factors of competitiveness and sustainable development. The basic prerequisites for creating an innovative knowledge society are the excellence and relevance of scientific research results. Excellence is a measure of quality and international visibility of scientific research results, and relevance is the influence of scientific and research results on the economy and society. Following the practice of the developed countries of the

world, Serbia adopted the document called Strategy of Scientific and Technological Development of the Republic of Serbia for the period from 2016 to 2020 - Research for Innovation. It is a document that sets out measures and programs for improving excellence in science and research targeted at the development of the economy and society as a whole over the following five-year period.

1. FINANCING OF RESEARCH - EUROPEAN EXPERIENCE AND MODELS

There are various purposes of research funding. Namely, in the structure of US funding, the programs of a military-strategic nature have dominant significance. In Japan and Germany, expenditures for financing peacetime (civil) production prevail. According to the National Science Foundation, the research potential of the OECD countries amounts to nearly 230 billion dollars a year. Out of the total OECD, investments in the United States account for 48.9% (from the point of view of workforce, 43% of the research staff comes from the USA). Germany participates with 8.7% of total investment in research. This is less than 1/5 of the US, and less than Japan by 50%. Nevertheless, research and development expenditure in Germany increased from 22.7 to 56.8 billion euros from 1977 to 2010. In the structure of expenditures for R & D in 2014, the economy participates with 59% on self-financing basis with entrepreneurial motives.

World R & D trends have prompted the EU Commission to indicate in its report on science and technology status in Europe that there is a growing gap in financing of research and development between the North and the South, or between Germany, Great Britain and France, and the remaining members of the EU, the brain drain towards the United States and the need to strengthen "research and development intensity". There are another two major problems: (1) the exclusion from the process of production of unqualified and less qualified workforce, and increased job creation for highly qualified and specialized workforce under the influence of the "cardinal consequences of the application of new technologies in the production process" and (2) increasing investments in and reforming of the education system in accordance with the new requirements of production techniques, which now imply "the application of science in all its elements" (from organization to management) and in which "these are no longer machines or robotics, but humans" (Sahlberg and Oldroyd 2010, 285).

In Sweden there are research grants, financial support for cooperative research programs, loans for the purchase of expensive scientific equipment, support from the Fund for Northern Lands, loans for technological development, state investment bank, etc. Research grants aim to encourage fundamental research in industry and can cover almost all types of expenses up to the full cost of the project. Aid for cooperative research programs aims to facilitate the implementation of joint research programs of interest to the entire industry or to a group of companies. The aid is given in the form of a grant, whereas the participation of STR (Eng. Technical Development Council, as a state agency within the line Ministry) cannot exceed 50% of the total project cost. Loans for the purchase of expensive scientific equipment are low-interest and uncollateralized loans, which serve to encourage research in the industry through subsidized procurement of scientific instruments and equipment. The aid of the Northern Lands Fund serves also to encourage research and development, and scientific projects that precede production. Aid is provided in the form of grants. Technological development loans are intended to encourage technological innovation through subsidizing of projects for the development of new technologies. Thus all the development costs are covered, from planning to construction of a pilot plant, including a prototype. In general, the loan covers half of the project cost. The Swedish Industrial Fund, as an independent foundation, serves to finance development projects. Funds are provided by the state. Loans are repaid in the form of "royalties" in the event of success, and are granted with interest rate

equalling discount rate increased by 4 percentage points. Only if the project fails, the fund receives an aid in the form of a grant. The State investment bank of Sweden finances only high-risk projects by granting loans at a fixed interest rate. Loans are given only to large companies that engage in long-term and risky projects. In conclusion, for this purpose, industries can be granted state-guaranteed loans, and loans from the regional development fund and loans for entrepreneurs.

Japan also financially supports research and development through a number of methods: support for significant research projects, technological advancement, creative science and technology promotion programs, contract-based development, licensing assistance, development bank, loan guarantees for research-oriented enterprises, aid for larger and revolutionary technologies, etc. Support for significant research and development projects (R&D) is provided by the state, especially when it comes to fostering a concentration of knowledge in an industrial structure. The system is managed by the Agency for Industrial Science and Technology. The state also provides support for R&D for larger technologies in the form of an interest-free loan. The state also supports revolutionary innovative technologies, with the so-called conditional interest-free loan. The loan covers 50% of the total project cost, since only the target-oriented work is funded. State aid is also provided for technological improvements of small and medium-sized enterprises, while the loan has to be partially repaid with a certain portion of profit upon completion of the research program. The R & D Corporation of Japan aims to help the industrial application of research and experiment results achieved by universities and public and private institutions. There are three programs:

(1) program for the promotion of creative science and technology,
(2) development through contracts, and
(3) supporting licence marketing.

For these programmes, the corporation covers equipment purchase and current expenses, which must be repaid in five years without interest. Along with the corporation, Japan Development Bank is also involved, providing guarantees for the cross-border loans to help develop technology and research. In addition, a small business finance corporation is introduced to improve the application of research results and new technology. The Credit Guarantee Association provides guarantees against loans that companies apply for with commercial banks for innovations. The Centre for R&D and Development-Oriented Enterprises, as a non-profit state foundation, also provides guarantees against loans for development-oriented projects, especially to small and medium-sized enterprises for the development of new technology.

Over the last 20 years, Germany has paid special attention to programs and support to R&D in small and medium-sized enterprises. The federal state is implementing a program of grants for personnel expenses derived from research and development in order to strengthen the R&D capacities of small and medium enterprises. The funds are provided from the budget of the Federal Ministry of Economy. Grants for external contractual research expenditures are paid up to 30% of total expenditures to companies that do not have R&D capacities. The grants are conditioned upon the project being directed at development of these technologies and carried out at the institute funded by the social funds. The system for technological advice, which receives 1/3 of its funds from the Federal Ministry of Economy, through sectoral R&D associations encourages the application of technological knowledge in innovative activities. In addition, premiums for investments in fixed assets for R&D (20%) and in regional development (10%) are also used. Under this pattern, premiums are financed indirectly, i.e. by reducing taxes to companies. Initial innovation programs provide innovation support up to the stage of development of prototypes at the federal unit level.

This way, a loan for up to 50% of the R&D costs can be granted, provided the interest for the entire economy is identified exceeding the financial concept of the company risk-wise. There is a wide range of state support for the improvement of technological performance of the economy and strengthening links between research activities, as follows: vertically, from basic research to its application, and horizontally, between various activities, all aimed at industrial research improvement within the framework of the Federal Ministry of Research and Technology programme. These programs represent cross-categories between contractual research and direct grants, while the federal state can participate in the income from the use of the project results that it had financed depending on the level of participation. On top of these, there are special programmes for microelectronics and information technology, covering 40% of the development costs and 20% is allocated for investments. Finally, there is the so-called venture capital for technological development, formed by credit institutions through foundation of a joint financial institution, whereas the federal state assumes over 75% of losses to cover from its budgetary sources.
The Netherlands, like many OECD countries, provides significant support to research and development, the TNO provides significant support for the applied research, and, as a non-profit organization, has a network of its own laboratories and institutes shared with the industry. The program of "incentive measures" provides grants for R&D projects, up to 50% of the total project cost. The so-called Contract research offers the possibility of covering costs of contractual R&D projects carried out by the institutes for specific companies on a six-year term, while the State Industrial Advisory Service is responsible for managing the program. "Innovation incentive arrangement" represents a new central program that supports small and medium enterprises by covering personnel expenses allocated for R&D purposes. Programs for priority areas (such as transit technologies, information technologies and medical technologies) subsidize the "funds" for know-how and for science and development institutes working on these programs. At the initiative of the Ministry of Economy, a study is performed for priority areas whose costs are covered in their entirety. Priority is given to collective researches (from institutes and groups of companies) in order to strengthen the technological base of the Dutch industry.

Loans for technical development have been launched to contribute to financing ideas and covering the costs of overall research. The support is given in the form of a loan. Interest and reimbursement of funds to small and medium-sized enterprises, the financial support for the project should go beyond the possibilities of a normal budget. There are also demonstration energy saving projects the supporting tool of which consists of two parts: a grant covering 25% of the investment and a special purpose loan covering 25% of the investment price. In case of project failure, loans are written off. Finally, the Ministry of Economy provided additional venture capital through the National Investment Bank to small and medium-sized enterprises. Funding is made in the form of loans with state participation of 35% and with the granting of state premiums for regional investments in accordance with the rules of the EEC for investment and development.
France is, finally, a well-known EU member state, which also financially supports the policy of the R&D by numerous measures and instruments, mechanisms and institutions. The Fund for Scientific and Technical Research, administered by the Ministry of Research and Industry, distributes funds in three different ways (procedures). Namely, managed actions are performed in special areas of fundamental and applied research. These actions are in the form of grants, without repayment obligation. State research organizations receive grants that cover the total cost of research. For private laboratories, grants cover 50% of the total research costs. Contract programs are valued in the form of non-refundable grants in the amount of 50% of the average research price for private research institutes and 100% of the total cost of research for social institutions.

Finally, specific actions (in addition to managed and contracted actions) are focused on the financing of limited-scale research operations. Specific actions have a form of grant and vary depending on the researcher. They serve to compensate research costs, however without covering research personnel expenses. In addition, innovation grants (premiums) are in place to encourage investments in R&D of small and medium-sized enterprises. Costs that are the premise for the grant volume assessment are the R&D price for new products or processes, and R&D prices for expertise. Innovation grants amount to a maximum of 25% of the research costs. Premiums for the dislocation of research activities are allocated to companies that create and develop capital equipment for research outside the Paris region. These schemes are also followed by innovation-targeted support, which is provided to individuals or research agencies. The support is given in the form of an advance payment, which is repaid in case of project success, and, rarely, in the form of a non-repayable grant if the project fails. The support does not exceed 50% of the expenditure (including taxes). In general, the support covers almost all stages of the innovation process, research personnel expenses and capital equipment expenditure. Innovative companies are provided with guarantees against bank loans by an innovation development company. The coverage is obtained from a fund provided by the Ministry of Research and Industry. The bank is protected from risk, as it only provides medium-term loans and investment loans for innovation. These loans are granted for a period of 2-10 years, or 12-15 years.

Loans enable to finance expenditures for industrial and commercial introduction of innovations, R&D expenditures for innovation improvement and investment costs. In addition, Strategic Industrial Development Schemes are used, based on which companies receive financial support from countries for projects in strategic areas. There are also schemes for equipment modernization and special purpose loan for the introduction of robotics. Newly-founded innovation finance companies (so-called venture capital companies) also have their schemes to finance the industrial application of technological research and the development and acceptance of inventions. They enter into an agreement with the state on providing initial capital and investing at least 80% of capital to distribute profits for investing in innovation. The Special Guarantee Fund of the Ministry of Research and Industry covers the losses of innovation finance companies under the loans to small and medium-sized firms. These also include loans from agencies with special legal status and loans from the "natural-social development fund". Finally, they also serve to support through equity interest in shareholders' capital through the Institute for Industrial Development (which, being an agency, only buys newly issued shares) and regional development companies, which receive grants designed for companies that create, expand and maintain research activities, engineering, marketing and consulting.

In Serbia, investments in science accounted for 1.2% of the social product. Relative allocations for science correspond approximately to the degree of its economic development, its economic ranking on the scale of international comparisons. These allocations are 3-5 times lower than in the developed countries of Western Europe. However, if we consider investments in science per capita, then they are 4-5 times lower in Serbia than in the developed countries of Western Europe. And if we look at the financing of scientific research at higher education organizations in Serbia, then we come to the conclusion that the share of the economy in the financing of scientific research is increasing and that the relative share of social funds in this financing is decreasing. From the perspective of open innovation, as a new model in operating of companies in Europe and the world, the Republic of Serbia still has a lot to do to improve the internal structures of knowledge, technology and other tangible and intangible assets, i.e. to improve its own innovative capacity (Ristić and Vukajlović and Brazaković 2016, 22).

Innovation potential of Serbia, in comparison with the developed European countries, is in a much worse position, and this position stems from the lack of adequate access to funding sources, investments in research and development of new products and services, and market

development. Only when an adequate basis for establishing an appropriate knowledge base is created can we improve the national innovation culture (Dajić 2017, 56).

2. SUSTAINABLE REGIONAL DEVELOPMENT INCENTIVES

Modern state interventionism in the so-called monitoring economy form implies a complementary response from the public sector to the undertaken economic actions of the private sector in support of the development of propulsive sectors, the promotion of technological progress, infrastructure financing, fiscal benefits, subsidies, etc. In order to accelerate the development of underdeveloped areas in developed industrial countries, a number of mechanisms are used: subsidies, grants, approval of loans with lower interest rates, fiscal benefits and incentives, sale of land and buildings in underdeveloped areas at favourable prices for industry needs, granting privileges to industry in purchasing deficient resources, defining favourable tariffs for public services, the obligation of the state companies to invest in underdeveloped areas, administrative prohibitions for new investments in highly developed and overly urbanized regions, granting state subsidies in various forms (premiums for procurement of investment equipment, premiums for recruiting new workers, participation in research expenditure) (Jakopin 2011, 77).

In Italy, there are subsidies in the amount of building construction costs, grants in the amount of 10% for purchased equipment and devices in developed areas of 20% for purchased equipment in underdeveloped areas. In Germany, from the Fund for Regional Development Programs in Industry and Tourism, grants are given in the amount of 15% of investments, or up to 25% for reduction of investment costs in the border areas. In France, funds for financing the development of underdeveloped areas originate from the Territory Fund, the Fund for Economic and Social Development and the Local Fund for Regional Development in the form of grants, subsidies and favourable loans. In the United Kingdom, a special grant is granted for the construction of individual facilities to increase employment, grant for expenses related to relocation of enterprises and workers in underdeveloped areas is offered as well, and for staff training and new education of workers, grants for construction of facilities, special purpose grants and covering up to 85% the cost of cleaning up the neglected and polluted areas, a special grant of up to 30% of the costs for improving infrastructure and a grant of up to 30% of wage costs in newly-founded enterprises.

In Italy, tax deductions for the profits reinvested in the south are approved. Tax incentives also apply to building materials, taxes on the purchase and transfer of land and buildings, electricity tax and registration fees for new companies. In Belgium, there is the exemption from local labour tax and installed motor power, company registration and real estate taxes, as well as reduction of the tax on the profit reinvested. In France there are tax reliefs on land tax and on reinvested profits and exemption from patent tax and inheritance taxes. Accelerated amortization exists in all EU Member States. In Italy, there is even double amortization during the three budget years, while in France there is an "exception" amortization of up to 25% of the construction costs. In the UK, initial write-offs are allowed up to 40% of the value of investments, while investments in the least developed regions benefit from accelerated write-offs in full amount. The state provides special privileges in the form of free rental of factories or a newly built factory with favourable privileged rental fees in order to strengthen the entrepreneurial spirit.

In Germany, grants and subsidies are allocated from public funds ranging from 10% up to 25% depending on the identified developmental poles. In Denmark, investment premiums can go up to 25%. In Germany, public aid is given in the form of loans to small and medium-sized enterprises, beneficial loans to the processing industry, investment in infrastructure and special social security funds. In the United Kingdom, local government funding is a source of public aid to the industry in underdeveloped regions, while the state places priority on

procurements from the budget to the underdeveloped areas (Hadjimanolis and Dickson 2001, 811)

Thus, a diversity is the level of development aid - from subsidies to bus companies that operate routes in underdeveloped areas (Norway) to major state interventions in the branches and regions to be helped (Sweden). In Sweden, companies are authorized to set aside up to 40% of profits before taxation and hold them in an investment fund for use in the "special assistance" zone. In Spain, aid is allocated to the zones having potential development opportunities. In Germany, there are areas with special status and economic development subsidies (provinces). In Finland there is even a fund, organized as a joint-stock company, where the state is the major bond-holder. There is also a special fund for the development of Ireland and South Italy in the EU. But capital is invested where there is the biggest difference between its yield and its burden, because different taxation systems are a real disruption to integration. Out of the budget, 5% goes to regional expenditures (75% on the CAP, 6% on the administration, and 5% on social expenditures). Regional disparities in the EU, however, still amount to 6: 1 between the most developed Hamburg and the least developed Calabria.

On the other hand, the states provide benefits for the relocation and foundation of new factories in the province (France, England and Greece), and a reduction in the concentration of economy and population around major cities (Belgium, Denmark and Switzerland). By facilitating and subsidizing individual countries, the industry is directed to less developed regions (the Netherlands and Poland). In Russia, the development of the underdeveloped republics, districts and districts is boosted by non-repayable state budget investments, budgetary grants and beneficial bank loans.

By stimulating capital to move towards less developed regions and providing guarantees for loans and favourable interest rates (USA, Canada and Austria), additional funds are provided for the development of underdeveloped areas. Lastly, the Southern Development Fund was established in Italy. In the first phase, the fund stimulated the development of infrastructure. The second phase involved major agricultural interventions, because on the basis of the initial results, the conclusion was that the industry cannot thrive on the economically uncultivated soil without working habits and production of funded consumption. In phase III there was a more intensive foundation and relocation of factories with a major help from a fund that encourages the development of small and medium-sized enterprises, stimulating the relocation of company directors, development centres and project organizations from the North. Enterprises are exempt from social contributions for employees and taxes, and receive loans under more favourable conditions. Among the incentives to increase the free level of demand, production and employment, cash grants for purchasing primary capital are particularly important, expansion and re-activation of existing assets, employing young people and training of staff, reduction of local taxes, subsidizing loans, etc.

In Ireland, grants for investments to small industrial enterprises, grants for modernization and re-adaptation of equipment, subsidies for real estate leasing for agricultural and industrial enterprises, low interest loans and rendering of free services are particularly practiced. Brazil is characterized by income exemptions, taxes on factories and machines purchased for the incorporation of enterprises in underdeveloped regions and customs on imports, the definition of tax exemptions for investment projects through national regional development agencies. In Malaysia, there are long-term income tax exemptions for companies that locate their operations in certain developing regions, for investment in primary capital and for recruitment of additional workforce (Corsetti and Meier and Müller 2012, 880).

While implementing the policy of reducing disparities in the regional development of modern countries, numerous measures and instruments are used: control of the location of economic activity and production capacities, provision of socio-economic infrastructure, complex regional planning, foreign exchange and import licenses, budget grants, development funds and fiscal incentives. In this context, regional fiscal incentives, such as tax incentives for

production, tax incentives on profits, tax incentives in the sphere of consumption and other incentives, are of particular socio-economic importance.

Overall, the emphasis on stimulating additional investment in fixed assets, delivery of goods and rendering of services needed by the state and other fiscal and non-fiscal incentives in the policy of reducing regional disparities reflects focusing more on supply than on demand. However, the question of the cost of incentives for the national fiscal fund and the matter of alternative methods, which, along with the cost of incentives, reject maximum benefits for the regional economy and the national fiscal fund by giving equivalent incentives is still open for scientific discussion. By standard comparison analysis of the prices of incentives set aside from fiscal and budgetary funds and the benefits of allocated incentive through production, employment, income and taxes, a rational decision on the size of the incentive can be reached from the point of view of the efficiency of narrowing regional disparities and the efficiency of allocated resources. In this context, development policy makers should ensure that for each given budgetary expenditure for a fiscal incentive, additional income for national fiscal fund, personal income, consumption, income and assets is created (Ristić 2013).

During 1980-2010. in the EU, discussions were held on the reform of the regional development policy and the Regional Development Fund, which was created as an instrument which by additional financing results in reducing the differences within the national economies of the member states, the prioritized development of the least developed regions and the coordination of national regional policies. The Policy of Incentives for Regional Development through the Fund was fed from four sources: (1) Loans with favourable interest rates approved by the European Investment Bank, (2) Aid from the Agrarian Fund, (3) additional funding from the Social Fund, and (4) Funds of the Regional development Fund. In the period 1985-2008, through the Fund, a huge amount of money was invested in the EU, to activate investments in which the fund participated with 13-17% of equity contribution. In the past period of the Fund's operating, there were disputes over who contributes and to what extent, as well as who receives the funds and the volume thereof, primarily because the Fund financed the costs of the budgets of the countries allocated for the regional development and because the fund's grants represented a kind of subsidy to the budgets of EU member states. Therefore, in the reformed Fund strategy, the funds are divided into two categories: (1) funds allocated to member states within the limits of fiscal quota, which are allocated according to the key for financing national programs of regional development, and (2) funds used to finance common projects. In this way, the Fund is not only a tool for collecting and allocating funds, but is also deciding on the use of funds and coordinating national policies for regional development with EU policy in order to achieve a unified, common regional development policy.

Representing activities of special social interest and leading activities within the entire sphere of social activities, educational and scientific needs are supported by fiscal resources. However, additional investments in science and education do not have fiscal treatment. Namely, investments in scientific and educational activity that are considered material costs, funds of the reserve funds are not encompassed by the fiscal policy. The same applies to the additional investments of the company by additional income allocations, purpose-related investments, pooling of funds, etc. Citizens' contributions for science and education are a deductible item in determining the fiscal burden of taxes from the total income of citizens. The employment service funds serve to increase the mobility of highly educated staff, while the special personnel benefits serve to attract professionals for underdeveloped areas (Smits and Kuhlann 2004, 30).

Researching cosmos and new energy sources, new technology and the transfer of science and technology and armaments are, of course, the first-rate domains of spectacular modern state investments and the spending of the budgetary financial resources and public funds of capitalist countries. Technological innovation, as a catalyst for economic growth, has become, in modern economies, the battle field of a new economic struggle. Fiscal benefits (reliefs and

deductibles), development premiums, investment primers, accelerated amortization, tax credit, tax refunds, fiscal deductible, differential or discriminatory taxation, beneficial and anticipated interest, public investment and selective lending are empirically verified in national economies as constituent measures and instruments of the overall economic, i.e. financial policy in the development context with calculated effects in the field of technical and technological progress (Milićević and Miličević and Arsić 2014,130).
The financial potential of budgetary and public-funds as financial institutions is distributed and allocated in the function of covering the costs of building socio-economic, social-health, scientific-educational and cultural-educational infrastructure, through which it indirectly impacts the dynamics of national income. The fund-oriented sector of economic organizations and the retail sector allocate purpose-related funds for the construction of objects of social standard. In addition, funds are allocated for the financing of needs in the material sphere of reproduction having the character of infrastructure objects, through purpose-related allocation of proceeds from income (through loans, special purpose taxes and contributions, and mandatory pooling of funds). By means of commercial and non-commercial investments from the budget, and non-commercial investments of social enterprises and funds relatively significant pool of assets is directed into the construction of infrastructure facilities of production and non-productive types. Special fiscal exemptions and deductions stimulate additional allocations for infrastructure purposes. Economic transfers support investment placements in the domain of infrastructure Duvnjak 2018). By issuing internal public debts and importing external accumulation by external borrowing, creditworthy resources are deployed to finance the infrastructure. Beneficial lending conditions serve to rechannel the funds into investment projects in the domain of infrastructural integrated regional strategy of sustainable development. Finally, a private-public partnership is a new financial challenge for the financial management of regional development, which is already being implemented in the form of regional financial management as a new segment of global financial management and corporate financing of the regional economy.

CONCLUSION

Importing technology and selling cheap labour force cannot save us from a dangerous trap of slow growth. The right solution is based on an innovative growth strategy that supports innovation and knowledge in the form of a regional innovation support strategy. Even the EU sought solutions in supporting innovation (ERA project) and "smart" specialization, whereas innovations are the key to getting out of the trap of insufficient growth. Innovation, on the path of knowledge-based growth, imply achieving the necessary level of state partnership building, research organizations (public) and economic entities (private) with the end goal to reach the target level of 3% of the social product set by the Lisbon Treaty and now imperative in the Europe 2020 strategy. Innovation must therefore be the epicentre of key discussions on the economic policy and institutional reforms that incorporate the creation of scientific incubators and research parks, creation of university enterprises (spinoffs) and intermediary organizations to support innovation capabilities, the formation of economic clusters for the spillover of knowledge, the formation of the Innovation Fund (financed by innovative companies at an early stage) and the increase in available capital through the investment of business angels and venture capital, and the creation of a co-financing program for innovative activities for structural, regional and demographic development and the creation of competitive business climate. The country is deemed successful only so long as it is able to continuously create and enhance its most important factors of production, such as well-trained people and its science base. (Klincov and Ristic 2009, 23).

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